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GENERAL SERVICES DIVISION
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COST EVALUATION METHODS
FOR REQUESTS FOR PROPOSALS

Cost Proposal must constitute 20% or more of the total available points. Exceptions to this must be documented in writing and approved by the Procurement Officer. There are several different methods to award points based on the cost set out for each proposal. If cost is included as one of the evaluation factors for a Request for Proposal (RFP), then there must be some way to convert the dollar amount into a score, or awarded points. The State Procurement Bureau (SPB) suggests the following methods for scoring the cost portion of an RFP response.

1.   Ratio Method.

With this method, the proposal with the lowest cost receives the maximum points allowed. All other proposals receive a percentage of the points available based on their cost relationship to the lowest. This is determined by applying the following formula:

$$\frac{\text{Lowest Cost}}{\text{Cost Being Evaluated}} \times \text{maximum points available} = \text{awarded points}$$

Example: The cost for the lowest proposal is $100,000. The next lowest proposal has a cost of $125,000. The total points available for cost = 100 points.

$$\frac{\$100,000}{\$125,000} = 80 \times 100 = 80 \text{ points}$$

2.   Best Value Method.

In this method, all factors, except cost, are considered and scored according to the established criteria. Once this is completed, the cost evaluation is completed by dividing the total points awarded to each proposal by its proposed cost. In this method, a value is presented in the form of a cost per point. The proposal with the lowest cost per point represents the best value to the State and would receive the award. When using this method, the SPB suggests establishing a minimum acceptable score each proposal would have to achieve in order to move forward in the process. Proposals that do not meet the minimum level would not advance to the final evaluation step.

Example:

Category	Proposal A	Proposal B	Proposal C
Technical	400	590	700
Qualifications	240	280	230
Total Points	640	870	930
Cost	$100,000	$125,000	$150,000

Proposal	Cost	/	Points	=	Cost per point
A	$100,000		640		156
B	$125,000		870		144
C	$150,000		930		161

Proposal B would receive the award because it provides the lowest cost per point, or best value to the State.

3.   **Two-Step Method.**

The Two-Step Method is designed to reward the lowest cost proposal that meets specific qualifications. This is accomplished by first specifying the criteria that will be used to determine a "Qualified Proposal." Typically, a proposal is deemed qualified if it has passed all minimum criteria or scores established, and is within a certain percentage of the top scoring proposal, typically within 10 to 15%. All proposals that meet these criteria are deemed qualified, and the proposal with the lowest cost would receive the award.

Example:

A proposal will be considered to be a "Qualified Proposal" if it meets the following criteria:

a.   The proposal has achieved a passing score for all parts; and
b.   The total point score for the proposal is greater than or equal to 90% of the highest scoring proposal.

All proposals meeting these criteria will be determined to be a "finalist." The finalist proposal that results in the lowest cost to the State will receive the award.

4.   **Reward Average Cost Method.**

This method requires consultation with the State Procurement Bureau before it can be used. In this methodology, the average cost is awarded the maximum allowable points and the other proposals receive fewer points depending on the formula selected by the evaluation committee. This is a method that might work best for service contracts where the cost normally is dependent upon the level of effort. If the cost is on the low side, one might suspect an inadequate level of effort. If the cost is on the high side, it might reflect unneeded "bells and whistles." The average cost might provide an overall industry consensus of what it would take to do the job.

If you choose this method of scoring cost, you will need to carefully think through the decision of where to set the ranges for the point values. Since the ranges will determine where points are gained or lost, that decision may eventually need to be explained and justified to vendors. An explanation of the method and the ranges assigned must be included in the evaluation criteria section of the RFP.

Example:

Proposal 1 = $400,000
Proposal 2 = $600,000
Proposal 3 = $800,000
Proposal 4 = $650,000
Proposal 5 = $750,000

Calculate the average cost proposal value as follows:

(400,000 + 600,000 + 800,000 + 650,000 + 750,000)/5 = $640,000.

Then determine the range for point values. In this case, the following formula was used (Note that the range includes values both below and above the average):

Within 10% of average = full 20 points
Greater than 10%, but less than 20% = 15 points
Greater than 20%, but less than 30% = 10 points
Greater than 30% from average cost proposal = no points awarded

Calculate ranges:

10% range = 576,000 to 704,000
20% range = 512,000 to 575,999 and 704,001 to 768,000
30% range = 448,000 to 511,999 and 768,001 to 832,000

Sample calculation (10% range):

Lower range = $640,000(average) - .10 x $640,000 = $576,000
Higher range = $640,000(average) + .10 x $640,000 = $704,000
Other ranges are similarly determined using .20 (20%) or .30 (30%)

Finally determine points based on calculated range values:

Proposal 1 = $400,000, greater than 30% below average: no points
Proposal 2 = $600,000 within in 10% range: 20 points
Proposal 3 = $800,000 within 20% to 30%: 10 points
Proposal 4 = $650,000 within 10% range: 20 points
Proposal 5 = $750,000 within 10% to 20% range: 15 points